

Establishing a Targeted Housing Subsidy System

Ukraine

Background

Traditionally, in the Ukraine households made only token monthly payments for housing and communal services (maintenance, heat, water and hot water, electricity, gas and garbage collection). In 1994, those payments barely covered four percent of the production costs of the services. As a result, government subsidies necessary to cover the production costs of housing and communal services amounted to three quarters of the 1995 national budget deficit. The Government of the Ukraine (GOU) concluded in late 1994 that the budget deficit could not be controlled unless housing subsidies were reduced. At the same time, the GOU as a condition of assistance from the International Monetary Fund (IMF) agreed to increase housing and utility prices substantially. The GOU faced the dilemma of how to protect low-income households from the price increases and at the same time reduce the subsidies to the housing and utility sectors.

Innovation

The GOU decided in early 1995 to establish a national program, the Housing Subsidy Program, to target subsidies to low-income families. The Program, begun in May 1995, provides assistance to families whose total housing costs exceed 15 percent of their income. The Program pays the difference between 15 percent of a family's income and its monthly housing payment. To avoid paying large subsidies to small families with large apartments, the subsidies are calculated only on a normative amount of space. Subsidies are not provided in cash—which would be administratively difficult—but through the discounting of the monthly payment books that families present when making their monthly housing payments.

To manage the Program new offices were established throughout the country. In urban areas the Housing Subsidy Offices are located in raions, subdistrict local government offices. A comprehensive training program was initiated prior to the beginning of the Program, and software programs were developed to computerize Program operations. Management of the Program rests with the oblast administration, and day-to-day running of the offices is the responsibility of city and raion departments. Cities have the authority to modify the Program to meet local needs at local expense (e.g., Kiev requires that families pay only 8 percent of their income for housing).

Results

By mid-1996, 4.5 million families had applied for assistance, and nearly three million were receiving subsidies that averaged about \$25 a month. The Program is being adjusted slightly to address various problems that have arisen (e.g., getting payments to utility companies and long applicant waiting lines), but a majority of the deputies to the Supreme Rada support the Program. As a result of increases in housing and communal services prices and the targeted approach of the Housing Subsidy Program, the state budget deficit in 1995 had been reduced by \$600 million. While the overall costs of housing subsidies have been substantially reduced, needy families are still receiving the assistance they require.

Summary

To reduce housing subsidies while increasing housing and utility prices, the GOU established the Housing Subsidy Program. By mid-1996, nearly three million families were receiving subsidies, and the 1995 state budget deficit had been reduced by \$600 million.

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